



Transportation Synthesis Report

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Internal Auditing and State DOTs

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Transportation Synthesis Reports (TSRs) are brief summaries of currently available information on topics of interest to WisDOT staff. Online and print sources include NCHRP and other TRB programs, AASHTO, the research and practices of other state DOTs, and related academic and industry research. Internet hyperlinks in TSRs are active at the time of publication, but changes on the host server can make them obsolete.

Request for Report

A number of state DOTs have chartered internal audit groups to help ensure that department processes are effective and economical, policy and procedure is being followed, controls are adequate to mitigate risks, and management is meeting goals and objectives. These groups are independent and objective, and bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Wisconsin DOT is forming a new Internal Audit group that will be responsible for carrying out financial audits and program audits. The Office of Policy, Budget and Finance has asked RD&T to prepare a report providing information that would help the new group define its larger role and responsibilities. Of particular interest would be information about best practices, mission and role of internal audit groups in other DOTs, skill sets, tools and articles, organizations and associations, training opportunities, online communities of practice and relevant research.

Summary

We located information relevant to a number of those topics:

State DOTs

- Alaska – The Internal Review Section has adopted the GAO Governmental Auditing Standards, promulgated by the Comptroller General of the United States General Accounting Office "Yellow Book" for professional standards of performance of audits and documentation of audit work.
- Arizona – The Internal Audit team offers services above and beyond traditional auditing to ADOT employees including consulting, software adjustments and facilitated self-assessment.
- New Mexico – Many times, the department's Internal Audits Bureau is able to find and resolve issues before the annual audit. The department is already proving capable of meeting the 80 percent resolved goal set in its performance-based budget.
- North Carolina – The Internal Audit Section's audit responsibilities include NCDOT Administration, Division of Highways, Division of Motor Vehicles, Governor's Highway Safety Program, Federal Audit Areas, Fiscal Audit Areas, and Special Investigations.
- Oregon – Services provided by the Office of Internal Audit Services include performance audits, information technology audits, internal control reviews, project and process development consulting, and risk assessments.
- Tennessee – The Office of Internal Audit has four lines of business to achieve its mission: auditing, investigations, education and consulting.
- Utah – The Utah Internal Audit Act defines for state agencies the power and duties of the audit committee, agency internal audit director and agency head.
- West Virginia – Transportation Auditing- Internal Audit Section performs internal operational reviews, audits of financial transactions, accounts and reports and evaluates compliance with applicable laws and regulations.

Tools

- Audit Committee Effectiveness Center – A generous online collection of guidance, resources and tools to make audit committee best practices actionable.
- A Guide for Performing Department of Transportation Internal Audits – The guide contains state transportation agencies best practices and recommended audit practices developed by an AASHTO Audit Subcommittee task force team.
- Uniform Audit & Accounting Guide: For Audits of Transportation Consultants' Indirect Cost Rates – The primary focus of the guide is auditing and reporting on the indirect costs and resultant overhead rates of consultants who perform engineering and engineering-related work for state highway agencies.
- AuditNet – This Web-based internal auditing tool was developed for the benefit of auditors and helps users to identify risks, develop best practices and add value to organizations. The site includes self-assessment tools, checklists, methodologies and templates.
- KnowledgeLeader Internal Audit and Risk Management Community – This is a subscription-based Web site that provides audit programs, checklists, tools, resources and best practices to help internal auditors and risk management professionals save time, manage risk and add value.

Organizations

- The Institute of Internal Auditors – The institute provides internal audit practitioners, executive management, boards of directors and audit committees with standards, guidance, best practices, training, research and technological guidance for the profession.
- Midwestern Intergovernmental Audit Forum – The Forum meets biannually with a main objective of exchanging information and ideas about auditing and related financial management topics among members, their representatives and other interested professionals from public accounting, consulting and financial organizations, and from academia.
- AASHTO Administrative Subcommittee on Internal/External Audit – Its mission includes providing a forum for transportation related internal and external audit organizations to keep abreast of requirements, regulations, procedures and innovative techniques employed by individual states, thus enhancing their efforts to provide a better service to management.

Publications

- Public Transit Industry Internal Audit Practices: Site Visit Summaries – This report is a companion to a study entitled Internal Audit Practices, FTA-VA-26-7005-95-1, that highlighted the importance of internal audit departments and current internal audit efforts; discussed current organizational structures; summarized certain best practices; and presented some ideas to consider for a model internal audit function.
- Internal Control- Internal Auditing – This document defines the purpose and scope of the internal auditing function within Oregon state agencies and will be of interest to persons seeking helpful information about establishing and operating an internal auditing function within a state agency.
- Consultant Audit Guide – The purpose of the guide is to provide consultants, independent audit firms and new state DOT auditors a basic understanding and a uniform reference guide for auditing and developing overhead costs.

Training

- Consultant Audit Guide – Offered by the FHWA Resource Center, this course covers the essential elements of contracting and the auditing of engineering consulting firms for transportation projects.

We contacted the University of Wisconsin-Madison to learn whether there might be possibilities for open, custom or personalized Executive Education training opportunities that would be helpful to the new WisDOT group (<http://www.uwexeced.com/>). We also contacted Edgewood College to learn whether there might be possibilities for creating a Corporate Professional Studies program that would be helpful to the group (http://gaps.edgewood.edu/professional_studies.htm). We will forward information received through these queries to the WisDOT customer.

State DOTs

Alaska

Internal Review- Internal Audit Procedures

http://www.dot.state.ak.us/admsvc/pnp/assets/chapt_1/01_04_010DPDR.pdf.

This procedure establishes guidelines for the conduct of intra-departmental internal audits.

A. Definitions:

* Internal Audits. Internal audits are financial related or performance audits conducted on functional areas within the department to include general operations, accounting systems and departmental indirect cost or equipment cost allocation plans.

* Internal Audit Standards. The Internal Review Section has adopted the GAO Governmental Auditing Standards, promulgated by the Comptroller General of the United States General Accounting Office "Yellow Book" (<http://www.gao.gov/govaud/ybk01.htm>) for professional standards of performance of audits and documentation of audit work. The general standards relate to the qualifications of the staff (including continuing education requirements and training), the audit organization's and the individual auditor's independence, the exercise of due professional care in conducting the audit and in preparing related reports, and the presence of quality control (internal quality control system and external quality control reviews). Such general standards and related standards of fieldwork and standards of reporting as enumerated in the Yellow Book shall be followed by the section and Internal Review staff in the performance of their duties and in the conduct of each audit assignment, as applicable, unless further clarified by departmental procedures and/or the Internal Review Audit Manual.

B. The Internal Review Section will assist management by providing audit information on the adequacy of the systems of internal control and control environment established to assure compliance with applicable state and federal laws and regulations for internal department operations by testing and reporting on the internal control structure.

The following documents provide further information about the purpose, policy, mission, objectives and activities of the Internal Review Section:

- **Internal Review- Establishment of Policy and Objectives for the Office of Internal Review**
http://www.dot.state.ak.us/admsvc/pnp/assets/chapt_1/01_04_010DPOL.pdf.
- **State of Alaska**
FY2003 Governor's Operating Budget
Department of Transportation/Public Facilities
Internal Review
BRU/Component Budget Summary
<http://www.gov.state.ak.us/omb/03OMB/budget/Trans/comp2356.pdf>.

Arizona

Transportation Services Group- Office of Audit and Analysis- Internal Audit Team

http://www.azdot.gov/inside_adot/audit/internal/index.asp.

Offers services "above and beyond traditional auditing" to ADOT employees, including:

- Consulting services. "We work with business units by offering an independent perspective on problems, and have a variety of talents and expertise to apply to the situation. These consulting services are not an audit and usually are available in a relatively short period of time, depending on the nature of the request. Consulting services include just about anything you can think of, including general business consulting, managing business risks, and information technology issues."
- Software issues. "Do you rely on spreadsheets or other electronic files in the daily operations of your unit? Are the inherent capabilities of those files being fully utilized to make your operations effective and efficient? If you aren't sure, call us to evaluate it for you. We sometimes are able to enhance such operations by relatively small adjustments to the software usage. Among others, Jeff Volzka has developed a number of spreadsheets and database applications to assist management, including upper management, in analyzing various issues and improving daily operations. In addition, Jeff has assisted his fellow team members by developing various queries and other computer assisted audit techniques."
- Facilitated Self-Assessment. "We can work with you using a new team facilitation process that puts you in the driver's seat. Using your business objectives, we guide you through a process of assessing your business risk for your changing business environment. This process is internationally recognized as a valuable management tool. We have a certified practitioner on staff who can assist you with your business needs."

More about the Office of Audit and Analysis at:

- http://www.azdot.gov/Inside_ADOT/AQA/PDF/1_Leadership.pdf
PDF page 5, paragraph 5 – The Office of Audit and Analysis reports...
PDF page 6, paragraph 3 – The federal highway transportation law...
- http://www.azdot.gov/Inside_ADOT/AQA/PDF/7_Business_Results.pdf
PDF page 3, paragraph 5 – ADOT further supports employees...

New Mexico

Process Management

(Courtesy of AASHTO Quality Information Center Web site)

[http://audit.transportation.org/community/quality/portal.nsf/d925fc8ba5c8ba67862568d60028d7f6/f8ed4fd62f156db886256b09007685a3/\\$FILE/Final6.1.PDF](http://audit.transportation.org/community/quality/portal.nsf/d925fc8ba5c8ba67862568d60028d7f6/f8ed4fd62f156db886256b09007685a3/$FILE/Final6.1.PDF).

PDF page 6: 6.3.a (6) -- The department minimizes overall costs associated with inspections, tests and process/performance audits by conducting its own internal audits in addition to its annual audit by the State Auditor. Many times, the department's Internal Audits Bureau is able to find and resolve issues before the annual audit. The department is already proving capable of meeting the 80 percent resolved goal set in its performance-based budget.

North Carolina

Internal Audit Section

<http://www.ncdot.org/administration/internalaudit/>.

Prior to August 1974, the Internal Audit function was part of the Fiscal Section and staffed under the controller of the Department of Transportation. At that time, the Internal Auditors had the responsibility for both internal and external audits. In August 1974, due to an administrative organizational change, the Internal Audit Section was established and authorized to function as a separate, free-standing activity to service all auditors with reporting responsibility to the Office of the Assistant Secretary for Administration. All of this was accomplished by transferring part of the positions and personnel from the old Internal Audit function (which became the External Audit Branch and remained under the supervision of the Controller) to the newly established Internal Audit Section. The Internal Audit Section officially began operations as a separate section on Sept. 9, 1974. Subsites include:

- * History- <http://www.ncdot.org/administration/internalaudit/history/>
- * Charter- <http://www.ncdot.org/administration/internalaudit/charter/>
- * Mission Statement- <http://www.ncdot.org/administration/internalaudit/mission/>

Oregon

Office of Internal Audit Services

http://egov.oregon.gov/ODOT/CS/docs/CENTRAL_SERVICES.pdf: PDF page 7.

Internal Audit Services performs independent internal audits of the various programs and divisions within the department in accordance with generally accepted government auditing standards (GAGAS). The office provides process and program reviews to all business lines of the department, guided by the management Audit Committee. Services include, but are not limited to the following: performance audits, information technology audits, internal control reviews, financial and compliance audits, project and process development consulting, and risk assessments. In June 2002, Internal Audit Services received a prestigious Recognition of Committee (ROC) Award from the Institute of Internal Auditors. The ROC Award is designed to recognize internal audit departments worldwide that demonstrate achievements and dedication to continued improvement in their internal audit activities (http://www.theiia.org/index.cfm?doc_id=1288).

The Safe Haven program provides initial investigation of ethics complaints and ensures compliance with ODOT's ethics policies as guided by the Ethics Committee:

- Policy clarification and interpretation;
- Appropriate use of state resources;
- Conflict of interest/acceptance of gifts;
- Ethical Decision Making training.

Tennessee

Office of Internal Audit

<http://www.tdot.state.tn.us/internalaudit/index.htm>.

The mission of the office is to add value by partnering with management to improve effectiveness and efficiency of department operations and resources by promoting internal controls. The office currently has four lines of business to achieve its mission:

- Auditing - to review departmental processes using a systematic and disciplined approach.
- Investigations - to review allegations and report the results to management.
- Education - to inform department personnel of risks and benefits associated with their future activities and to provide tools to improve these activities.
- Consulting - to provide a resource that will assist management in developing and implementing changes to continuously improve the department.

Subsites include FAQs:

- What to Expect <http://www.tdot.state.tn.us/internalaudit/expect.htm>.
- How Can IA Help You <http://www.tdot.state.tn.us/internalaudit/help.htm>.
- Internal Audit Charter <http://www.tdot.state.tn.us/internalaudit/documents/charter.pdf>.
- Why Internal Controls <http://www.tdot.state.tn.us/internalaudit/documents/control.pdf>.

Utah

Internal Audit

The following two links regarding Internal Audit are provided on the UDOT Web site:

Internal Audit Home: <http://www.udot.utah.gov/index.php/m=c/tid=489>

Contact Internal Audit: <http://www.udot.utah.gov/index.php/m=c/tid=1173>

Readers will find the following document helpful for learning about the nature of internal auditing operations in Utah state agencies:

Utah Code -- Title 63 -- Chapter 91 -- Utah Internal Audit Act (updated July 2005)

http://www.le.state.ut.us/~code/TITLE63/63_33.htm.

Content includes:

Internal auditing programs – State agencies http://www.le.state.ut.us/~code/TITLE63/hm/63_33004.htm.

Audit committee – Powers and duties http://www.le.state.ut.us/~code/TITLE63/hm/63_33005.htm.

Agency head – Powers and duties http://www.le.state.ut.us/~code/TITLE63/hm/63_33006.htm.

Duties of the agency internal audit director – http://www.le.state.ut.us/~code/TITLE63/hm/63_33007.htm.

West Virginia

West Virginia Department of Transportation, Administrative Procedures

Volume 1, Chapter 8: Operational Audit Reply – Internal Audits; June 1996

<http://www.wvdot.com/employees/procedures/DOT/vol1/DOTP0108.htm>.

As designated by the Secretary of Transportation, the Transportation Auditing Division is responsible for conducting audits of all operations and activities of WVDOT. As part of this assignment, Transportation Auditing - Internal Audit Section performs internal operational reviews, audits of financial transactions, accounts and reports and evaluates compliance with applicable laws and regulations. This document defines auditing roles and procedures of the Secretary of Transportation, Transportation Auditing, Internal Auditing Section, Audit Committee, Transportation Systems Services and auditees.

Transportation Auditing Division Home Page

http://www.wvdot.com/3_roadways/3d7_auditing.htm.

Further information regarding the mission of Transportation Auditing is provided:

- (a) Third party contract audits on project-related costs incurred by railroads, utilities, consultants, government instrumentalities, universities, nonprofit organizations, construction contractors where the terms of a proposal or contract necessitates an audit.
- (b) Making independent analyses, reviews and evaluations of existing activities and procedures relating to highway construction projects and maintenance organizations. This function shall include objectively reviewing records, inspecting physical features of highway projects, maintenance operations and inspecting auxiliary support facilities to determine:
 - (1) if the entity is acquiring, protecting and using its resources economically and efficiently;
 - (2) the causes of inefficiencies and uneconomical practices;
 - (3) whether the entity has complied with Division of Highways' Administrative Operating Procedures, regulations and laws.
- (c) Conduct internal audits and reviews of division and district operations for the purpose of providing the commissioner with independent objective appraisals concerning the programs and functions for which he is responsible, to make constructive contributions to the improvements of the Division of Highways activities and programs by focusing attention on conditions in need of correction or improvement and by recommending changes or other actions.

Tools

Audit Committee Effectiveness Center

American Institute of Certified Public Accountants

<http://www.aicpa.org/audcommctr/homepage.htm>.

Committed to member service and the public interest, the American Institute of Certified Public Accountants and its predecessors have been serving the accounting profession since 1887. A key element in the corporate governance process of any organization is its audit committee. The battle for financial statement integrity and reliability depends on balancing the pressures of multiple stakeholders, including management, regulators, investors and the public interest. Here is a generous collection of guidance, resources and tools to make audit committee best practices actionable.

A Guide for Performing Department of Transportation Internal Audits

AASHTO Audit Subcommittee; FHWA Resource Center Finance Technical Service Team; July 2005

<http://www.fhwa.dot.gov/resourcecenter/teams/finance/iag.cfm>.

This guide was developed by an AASHTO Audit Subcommittee task force of state transportation auditors and FHWA Finance Technical Service Team specialists. The purpose of the guide is to provide a tool that can be used by individual state internal auditors and public accounting firms that perform audits of transportation programs. The guide contains both the state transportation agencies best practices and recommended audit practices developed by the task force team. Chapter 2 discusses types of government audits and attestation engagements, financial audits and performance audits. The guide includes an internal control assessment, general audit program, and items of consideration as appendixes: these tools will help auditors develop audit programs to perform their oversight responsibilities.

Uniform Audit & Accounting Guide: For Audits of Transportation Consultants' Indirect Cost Rates

AASHTO Audit Subcommittee, American Council of Engineering Companies Transportation Committee, FHWA Atlanta Resource Center; updated 2005

<http://www.fhwa.dot.gov/resourcecenter/teams/finance/uaag.cfm>.

The purpose of the audit guide is to provide a tool that can be used by individual state auditors, consulting firms and public accounting firms that perform audits of consulting firms. The primary focus of the guide is auditing and reporting on the indirect costs and resultant overhead rates of consultants who perform engineering and engineering-related work for state highway agencies.

AuditNet

<http://www.auditnet.org/>.

This Web-based internal auditing tool was developed for the benefit of auditors by Jim Kaplan CIA, CFE, CSM. The site helps users to identify risks, develop best practices and add value to organizations. The site includes self-assessment tools, checklists, methodologies and templates. Subsites include:

- Internal Audit Resources: provides links to internal audit resources and internal audit departments on the Internet (<http://www.auditnet.org/intaudit.htm>).
- Internal Auditing Department Charters: provides links to local government audit charters and other audit department charters. The internal audit charter establishes the department's position within the organization, authorizes the records that the auditor has access to, and defines the scope of internal auditing activities. It is important because it represents the contract between the internal auditing department and the organization (<http://www.auditnet.org/charters.htm>).

KnowledgeLeader Internal Audit and Risk Management Community

<http://www.knowledgeleader.com/>.

This is a subscription-based Web site that provides audit programs, checklists, tools, resources and best practices to help internal auditors and risk management professionals save time, manage risk and add value. Highlights include internal audit tools and resources:

<http://www.knowledgeleader.com/iafreewebsite.nsf/content/InternalAudittoolsandresources!OpenDocument>.

Organizations

The Institute of Internal Auditors

<http://www.theiia.org/>

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association of more than 107,000 members with global headquarters in Florida. The IIA is recognized as the internal audit profession's leader in certification, education, research and technological guidance. IIA focuses on issues in internal auditing,

governance and internal control, IT audit, education, and security worldwide. The institute provides internal audit practitioners, executive management, boards of directors and audit committees with standards, guidance, best practices, training, research and technological guidance for the profession. Site contents include:

Establishing an Internal Audit Shop: http://www.theiia.org/?doc_id=3652

Consulting and Advisory Services: http://www.theiia.org/?doc_id=314

Training: http://www.theiia.org/index.cfm?doc_id=883

Educational Products and Reports: http://www.theiia.org/bookstore.cfm?fuseaction=home&doc_id=531

Discussion Groups: http://www.theiia.org/index.cfm?doc_id=1202

Midwestern Intergovernmental Audit Forum

http://www.auditforum.org/midwestern/mw_home.htm.

In the late 1960s and early 70s, Congress passed a series of laws that increased the level of direct funding federal agencies made to state and local governments and charged the U.S. General Accounting Office (GAO) to "conduct a continuous program for the improvement of accounting and financial reporting in the Government" with a view toward arriving at "simplified and more effective accounting, financial reporting, budgeting and auditing requirements." To satisfy the need for greater audit coordination and cooperation, GAO established the National Intergovernmental Audit Forum and 10 regional Intergovernmental Audit Forums, including the Midwestern Forum. The Midwestern Forum is an association of members who head federal, state and local government audit organizations in Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin. The Forum meets biannually in one of the six states, with a main objective of exchanging information and ideas about auditing and related financial management topics among members, their representatives and other interested professionals from public accounting, consulting and financial organizations, and from academia.

AASHTO Administrative Subcommittee on Internal/External Audit

<http://audit.transportation.org/community/audit/site.nsf/homepage/overview?opendocument>.

The subcommittee is comprised of the senior person representing the audit function for each state's transportation or highway department. Its mission includes 1) establishing audit procedures that are sufficiently flexible for use in each department, yet standardized enough to achieve uniformity; 2) providing member departments alternative solutions for compliance with audit requirements that also meet their individual needs; and 3) providing a forum for transportation related internal and external audit organizations to keep abreast of requirements, regulations, procedures and innovative techniques employed by individual states, thus enhancing their efforts to provide a better service to management. The site provides a full feature set offering information about the subcommittee's work and members and helpful resources.

Publications

Public Transit Industry Internal Audit Practices: Site Visit Summaries

Federal Transit Administration, November 1995

http://ntl.bts.gov/card_view.cfm?docid=4630.

This report is a companion to a report released in August 1995 entitled Internal Audit Practices, FTA-VA-26-7005-95-1 that was the result of a project sponsored by the American Public Transit Association Internal Audit Committee and funded by the FTA. That report highlighted the importance of internal audit departments and current internal audit efforts; discussed current organizational structures; summarized certain best practices; and presented some ideas to consider for a model internal audit function. The purpose of this companion report is to share additional information about the nine transit internal audit departments visited during the research project. Topics include Mission and Organization, Audit Planning and Risk Assessment, Use of Technology, Quality Influencers, and Departmental Strengths or Best Practices.

Internal Control- Internal Auditing

Oregon Accounting Manual

Oregon Department of Administrative Services, State Controller's Division, 2003

<http://egov.oregon.gov/DAS/SCD/SARS/policies/oam/10.80.10.PO.pdf>.

This four-page document defines the purpose and scope of the internal auditing function within Oregon state agencies. The content will be of interest to persons seeking helpful information about establishing and operating an internal auditing function within a state agency. Topics include internal auditing requirements and standards, auditor qualifications, leadership, and Chief Audit Executive Council.

Consultant Audit Guide

Quality Financial Management Improvement team, state DOT auditors; December 1998

<http://www.wvdot.com/engineering/Consultants/AuditGuide.PDF>.

Even though there is more outsourcing of engineering and other types of work by state DOTs, there has not been a corresponding increase in the amount of DOT personnel to review or audit consultant proposals and contracts. DOT auditors are asked to evaluate consultant agreements, accounting systems and claims often without adequate and effective guidance. Written procedures and processes may be state DOT-specific and lack the uniformity to be used in more than one state. Recognizing these situations, Southeastern State DOT auditors formed a Quality Financial Management Improvement (QFMI) team. The QFMI team developed this uniform guide, intended to bring consistency to the consultant audit process. The purpose of the guide is to provide consultants, independent audit firms and new state DOT auditors a basic understanding and a uniform reference guide for auditing and developing overhead costs. The specifics in the guide are what the team believes are the best practices for the auditing of consultant firms.

Training

Finance Training, FHWA Resource Center

Consultant Audit Guide

<http://www.fhwa.dot.gov/resourcecenter/teams/finance/courses.cfm#audit>.

This course covers the essential elements of contracting and the auditing of engineering consulting firms for transportation projects. Course topics include: Contracting with design engineering firms, Federal Transportation Laws and Regulations, The Federal Acquisition Regulations (FARs), and Indirect Costs. Finance courses are customized to customer needs, and can be tailored for length, level of preparation and level of detail.